



NEWS RELEASE

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Extra Payments to Medicare Advantage Plans to Total \$8.5 Billion in 2008

Overpayments Will Remain Significant Even after Payment Reductions in New Medicare Legislation Are Implemented

New York, NY, September 5, 2008—Private Medicare Advantage (MA) plans will be paid an average 12.4 percent more per enrollee in 2008 compared to what the same enrollee would have cost in the traditional Medicare fee-for-service program, according to a new report from The Commonwealth Fund. Even if the payment reductions to MA plans mandated by the Medicare Improvements for Patients and Providers Act of 2008 (MIPPA) – scheduled to take effect beginning in 2010 – had been fully in place in 2008, MA plans still would have been paid 10.6 percent more than expected fee-for-service costs.

In the report, Brian Biles, professor of health policy at George Washington University, and colleagues estimate that extra payments to MA plans will amount to \$986 over fee-for-service costs for each of about 8.7 million Medicare beneficiaries enrolled in Medicare Advantage plans, for a total of more than \$8.5 billion in 2008 – up from \$3.9 billion in extra payments, or \$795 per MA enrollee in 2004. Extra payments to MA plans between 2004 and 2008 will total nearly \$33 billion.

The bulk of these extra payments were mandated by the Medicare Modernization Act of 2003, which was intended to expand the role of private plans in Medicare in an effort to reduce growth in Medicare spending. Since 2004, MA plan enrollment has increased from 4.8 million to the current 8.7 million.

“The legislation passed this year only partially addresses the overpayment problem in Medicare Advantage, and private plans still substantially raise the cost of serving Medicare beneficiaries,” said Commonwealth Fund President Karen Davis.

“Policymakers should carefully examine whether extra payments to Medicare Advantage plans are the best use of dollars for the beneficiaries the program is designed to serve.”

The authors of the report, [*The Continuing Cost of Privatization: Extra Payments to Medicare Advantage Plans in 2008*](#), note that eliminating extra payments to private plans could be used for other purposes, such as offsetting the costs of Medicare policy improvements, which may include: slowing the increase in the Part B premium that Medicare beneficiaries pay, increasing eligibility for low-income subsidies in Medicare, or improving benefits and financial security for all beneficiaries.

“Medicare Advantage was intended to save the program money through the use of private plans. However, extra payments to these plans combined with rapidly increasing enrollment, has resulted in \$33 billion in additional spending over the past five years,” said Biles. “These overpayments put pressure on both Medicare and the federal budget, drain resources from other, potentially more productive, uses, and dilute the incentive for Medicare Advantage plan efficiency – which was one of the original reasons for including a private plan option in Medicare.”

The Commonwealth Fund is a private foundation supporting independent research on health policy reform and a high performance health system.